

COMMUNITY EXPRESS PILOT LOAN PROGRAM

(4/29/99)

The Community Express Pilot Loan Program is a collaborative effort between the Small Business Administration (SBA) and the National Community Reinvestment Coalition (NCRC) and its member organizations. Under the pilot, designated NCRC lenders are authorized to implement an *SBAExpress*-like loan program to increase SBA lending to New Markets small businesses. Pre- and post-loan closing technical assistance is also a key component of this program.

BACKGROUND

The SBA recognizes that a number of segments of the small business community continue to have difficulty in accessing capital from traditional lending markets. These businesses, the New Markets, are those newer smaller businesses that need small size loans and equity investments accompanied by technical assistance. They are comprised of current and prospective small businesses owned by minorities, women, and veterans, who are underrepresented in the population of business owners compared to their representation in the overall population, as well as businesses located or locating in low and moderate income urban and rural areas.

To assist New Markets small businesses, SBA is continuing to develop, implement, and test new programs and initiatives designed to more efficiently and effectively deliver SBA financing. The Community Express program represents one of these initiatives. Community Express is a cooperative effort between the SBA and the National Community Reinvestment Coalition. It brings SBA's program experience and lending capability together with the lending and community development expertise of the NCRC and its affiliated lenders.

The NCRC is a non-profit trade association comprised of 680 dues-paying community development and advocacy groups. Members are involved in, and committed to, revitalizing distressed communities. NCRC's mission is to ensure fair and equal access to credit, capital, and banking services and products to these communities. NCRC seeks to develop and support long-term solutions that provide resources, knowledge, and skills to build community and individual net wealth.

The NCRC Banker/Community Collaborative Council (BCCC) is comprised of representatives from the lending community. This Council promotes community-lender partnerships. Ten major lenders and ten community leaders (from the NCRC's Board of Directors) comprise the Council. They meet periodically to discuss matters of mutual interest and to collaborate on community development issues. The Community Express pilot developed from discussions between the SBA, the NCRC, and the BCCC.

COMMUNITY EXPRESS PROGRAM FEATURES

The Community Express program focuses on businesses located or locating in SBA pre-approved geographic areas or businesses that are woman, minority, veteran or handicapped owned. The Program will be similar to the Agency's *SBAExpress* pilot and conform generally to its policies and procedures; however, there will be some variations from *SBAExpress*, and the program will include specific provisions for technical assistance.

Under the pilot, approximately ten lenders, each a PLP lender in good standing, are authorized to adopt *SBAExpress*' streamlined and expedited loan processing and approval procedures to serve New Markets small businesses. To accomplish this, participants are allowed to use, to the maximum extent possible, their own loan analyses, processing procedures, and documentation. This includes authority to use their own application forms, internal credit memoranda, notes and other collateral documents, servicing documentation, and liquidation documentation. Participants must, however, continue to follow their established and proven internal credit review and analysis procedures for loans of similar size and type made without the government guaranty.

Community Express also uses the abbreviated *SBAExpress* loan application, which is to be submitted to the Agency's centralized processing facility in Sacramento. The processing center determines the borrower's eligibility and issues an SBA loan number (usually within 36 hours), but will not perform any additional credit analysis. (More complex loans and loans falling outside Community Express program eligibility are still be handled by SBA district offices using regular 7(a) loan processing procedures.)

Similar to *SBAExpress*, Community Express participants must also service and liquidate their loan portfolios and use generally accepted commercial banking standards employed by prudent lenders to do so. Routine loan servicing and liquidation issues will be handled by SBA's Loan Servicing Centers in Little Rock and Fresno, but all purchases will be handled by Fresno.

Due to the unique problems and challenges inherent in addressing the financing needs of the New Markets small businesses, the Community Express program differs from the *SBAExpress* pilot in some significant ways. Both the NCRC and the SBA recognize that technical assistance can be crucial to the success of New Markets small businesses. As a result, the Community Express program will include a technical assistance component. Borrowers are to receive both pre- and post-loan closing technical and management assistance from local non-profit providers or from BCCC lenders. Technical assistance will be coordinated, arranged and, when necessary, paid for by Community Express lenders. BCCC lenders may also consider technical assistance as a credit enhancement, which would help allay lenders' concerns when adequate collateral is not available.

To encourage participating lenders to more aggressively address the needs of New Markets small businesses, and to offset some of the additional cost to lenders for providing technical assistance, SBA's percent of loan guaranty under Community Express will conform to standard 7(a) practice. (SBA currently guarantees up to 80 percent for loans of \$100,000 or less, and up 75 percent for loans over \$100,000.) This

contrasts with *SBAExpress*, which carries a maximum SBA guaranty of 50 percent. In addition, the maximum loan amount under Community Express will be \$250,000, as contrasted with the *SBAExpress* maximum of \$150,000.

Community Express will continue as a pilot through September 30, 2005, with SBA and NCRC closely monitoring and evaluating its performance throughout the pilot period. Community Express will initially be limited to designated NCRC lenders, but will be opened to additional qualified SBA Preferred Lenders in FY 2000.

COMMUNITY EXPRESS PROGRAM OBJECTIVES

Community Express program objectives include:

- Increasing and broadening the delivery of loan products to SBA identified New Markets small businesses.
- Combining technical and financial assistance to maximize the development and success potential of New Markets small businesses.
- Increasing the collaboration among community-based organizations, the SBA, local governments, and lenders.
- Encouraging private sector lenders to take a more aggressive and more effective role in developing distressed markets and communities.
- Streamlining and expediting the SBA loan approval process for loans to New Markets small businesses.
- Continuing program monitoring and oversight to ensure portfolio quality and subsidy risks are appropriately controlled.

PROGRAM MONITORING AND CONTROL

The Community Express policy and procedures (as set forth in the Community Express Program Guide to be issued shortly) closely follow the revised and enhanced *SBAExpress* Program Guide (with the exceptions noted above). By using this guide, SBA can build on the experience that it has gained with *SBAExpress*. The Agency's improved management information systems will allow SBA to closely track the performance of both the overall program, as well as individual Community Express lenders and geographical areas. The agreement between the SBA and the NCRC also requires that the program be evaluated 18 months from its inception or when the dollar volume of loans under the pilot exceeds ½ of 1 percent of the total amount of SBA's 7(a) guaranty authority available in that fiscal year, whichever occurs sooner.

PARTICIPATING LENDERS AND AREAS PROGRAM OFFERED (4/29/99)

COMMUNITY EXPRESS LENDER	Target Market(s)
BankBoston	Boston, Hartford, Springfield
Bank One	Chicago (effective May '99), Milwaukee (effective May '99), Detroit (TBA), Cleveland (TBA)
Bank of America	Dallas (effective May '99), Los Angeles (effective May '99), Miami (effective May '99), Pensacola-Tallahassee corridor(effective May '99), San Francisco/Oakland

	(effective May '99)
Wachovia	Durham, Greensboro
Chase Bank Of Texas	Houston
Chase Manhattan Bank	New York City, Long Island, Rochester/Western New York State including Buffalo
European American Bank	New York City, Long Island
Mellon Bank	Philadelphia (Philadelphia County, Pittsburgh (Allegheny County))
Wells Fargo	Phoenix (pending), Seattle (pending)

CONCLUSION

The Community Express program presents the SBA with a unique opportunity to collaborate with a wide variety of community development groups and organizations to more effectively and efficiently deliver SBA financing to New Markets small businesses. It represents a highly innovative program that recognizes the critical link between small business financing and technical assistance and the potential for entrepreneurial success. Finally, Community Express can provide SBA field managers with an aggressive, substantive response to underserved communities across the nation and represent a natural complement to the developing One-Stop Capital Shops, the BICs, and the Empowerment Zone initiatives.